

**EVART AREA JOINT FIRE DEPARTMENT**

**EVART, MICHIGAN**

**JUNE 30, 2008**

*Baird, Cotter and Bishop, P.C.*

**CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

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EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

JUNE 30, 2008

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# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
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November 5, 2008

### INDEPENDENT AUDITORS' REPORT

To the Fire Board  
Evert Area Joint Fire Department  
Evert, Michigan

We have audited the financial statements of the governmental activities and the major fund of the Evert Area Joint Fire Department, Evert, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Fire Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the aggregate remaining fund information for the Evert Area Joint Fire Department, Evert, Michigan, at June 30, 2008, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through viii and budgetary comparison information on page 15 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Evert Area Joint Fire Department's basic financial statements. The other supplementary information is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P. C.

*Baird, Cotter & Bishop, P.C.*

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

Evart Area Joint Fire Department is a joint venture volunteer fire department supported by the Townships of Evart, Orient, Osceola and Sylvan and the City of Evart. It has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Evart Area Joint Fire Department board's discussion and analysis of the financial results for the fiscal year ended June 30, 2008.

**Financial Highlights**

- ◆ The assets of the Fire Department exceeded its liabilities at the close of the fiscal year by \$452,606. Of this amount, \$100,731 may be used to meet the Fire Department's ongoing obligations to citizens and creditors.
- ◆ At the end of the current fiscal year, unreserved fund balance for the General Fund was \$104,272 or 89% of total general fund expenditures.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Fire Department's basic financial statements. The Fire Department's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements** *Government-wide financial statements* are designed to provide readers with a broad overview of the Fire Department's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The Fire Department's entire assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Fire Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fire Department is improving or deteriorating.

The *Statement of Activities* presents information showing how the Fire Department's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

Both of the government-wide financial statements distinguish functions of the Fire Department that are principally supported by intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Fire Department are all related to public safety. The fire department supports no business-type activities.

### **Fund Financial Statements**

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources. The Fire Department only has one fund and it is a governmental fund.

***Governmental Funds*** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### **Other Information**

In addition to the basic financial statements, this report presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

### **Government-Wide Financial Analysis**

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Fire Department's financial position over time. The Net Assets of the Fire Department are \$452,606 at June 30, 2008, meaning the Fire Department's assets were greater than its liabilities by this amount.

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

**Evart Area Joint Fire Department**  
**Net Assets as of June 30, 2008**

	<b>Governmental Activities</b>
<b>Assets</b>	
Current Assets	\$ 115,811
Non Current Assets	
Capital Assets	889,121
Less: Accumulated Depreciation	<u>(426,370)</u>
Total Non Current Assets	<u>462,751</u>
<b>Total Assets</b>	<u><u>\$ 578,562</u></u>
<b>Liabilities</b>	
Current Liabilities	\$ 26,922
Non Current Liabilities	<u>99,034</u>
Total Liabilities	<u>125,956</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	351,875
Unrestricted	<u>100,731</u>
<b>Total Net Assets</b>	<u>452,606</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 578,562</u></u>

The most significant portions of the Fire Department's Net Assets are cash and investment in capital assets (e.g. land, buildings and equipment), less any related debt that is outstanding that the Fire Department used to acquire or construct the asset.

The following table illustrates and summarizes the results of the changes in the net assets for the Fire Department. The condensed information was derived from the government-wide Statement of Activities.

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

**Evart Area Joint Fire Department  
Change in Net Assets  
for the Fiscal Year Ended June 30, 2008**

	<b>Governmental Activities</b>
<b><u>Revenues</u></b>	
Charges for Services	\$ 8,800
Operating Grants and Contributions	113,750
General Revenues	
Interest Earnings	2,419
Other	<u>2,349</u>
Total Revenues	127,318
<b><u>Expenses</u></b>	
Public Safety	<u>144,222</u>
Change in Net Assets	(16,904)
<b><u>NET ASSETS</u></b> - Beginning of Year	<u>469,510</u>
<b><u>NET ASSETS</u></b> - End of Year	<u><u>\$ 452,606</u></u>

**Governmental Activities**

During the year ended June 30, 2008, the Fire Department's net assets decreased by \$16,904. This decrease represents the degree to which increases in ongoing expenses have outstripped similar increases in ongoing revenues. This is partially true due to the fact that GASB 34 now requires the Fire Department to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

The most significant part of the revenue for all governmental activities of Evart Area Joint Fire Department comes from the City of Evart and the Townships of Evart, Orient, Osceola and Sylvan. Each unit contributes an amount based on taxable value in each unit to support the Fire Department. Each township levies mills for fire protection. This revenue is shown as contributions from local units.

The Fire Department's governmental activities expenses are all public safety. The Fire Department spent \$144,222 in fiscal year 2008 on public safety expenses. Expenses for insurance represent a large portion of the public safety expenses at \$17,804.



EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

**Financial Analysis of the Government's Funds**

**Governmental Activities** The focus of Evart Area Joint Fire Department's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Fire Department's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

**General Fund** – At the end of the current fiscal year, Evart Area Joint Fire Department's General Fund reported an ending fund balance of \$104,272. Of this amount \$36,319 is designated. The remaining \$67,953 constitutes unreserved fund balance. The fund balance of the Fire Department's General Fund increased by \$10,158 during the current fiscal year.

**General Fund Budgetary Highlights**

During the year, individual expenditure lines were amended to agree with actual expenditures.

**Capital Assets and Debt Administration**

**Capital Assets.** The Fire Department's investment in capital assets for governmental activities as of June 30, 2008 amounted to \$462,751 net of accumulated depreciation. The net decrease in the Fire Department's investment in capital assets for the current fiscal year was 7.63%.

Capital assets summarized below include any items purchased with a cost greater than \$5,000 individually, that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

<b>Evart Area Joint Fire Department Capital Assets as of June 30, 2008</b>	
	<b>Governmental Activities</b>
Land	\$ 726
Buildings	218,615
Equipment	669,780
	<hr/> 889,121
Less Accumulated Depreciation	<hr/> 426,370
<b>Net Capital Assets</b>	<hr/> <b>\$ 462,751</b> <hr/>

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

**Long-Term Debt.** As of June 30, 2008, the Fire Department had a capital lease payable of \$110,876 to Baystone Financial Group for the purchase of a fire truck.

**Economic Condition and Outlook**

The Fire Department is expected to be supported by the Townships and City in the future.

The mills to be levied for the 2008 tax roll for fire protection are expected to be similar to 2007.

These factors were considered in preparing the Fire Department's budgets for the 2008-09 fiscal year.

**Request for Information**

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Fire Department's finances and to demonstrate the Fire Department's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Evart Area Joint Fire Department at 109 E. Sixth Street, Evart, Michigan 49631.

EVART AREA JOINT FIRE DEPARTMENT

EVART, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2008

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 115,711
Accounts Receivable	100
Total Current Assets	<u>115,811</u>
<u>CAPITAL ASSETS</u>	
Land	726
Buildings	218,615
Equipment	669,780
	<u>889,121</u>
Less Accumulated Depreciation	<u>(426,370)</u>
Total Capital Assets	<u>462,751</u>
TOTAL ASSETS	<u><u>\$ 578,562</u></u>
<u>LIABILITIES AND NET ASSETS</u>	
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	\$ 6,539
Accrued Interest Payable	3,541
Deferred Revenue	5,000
Current Portion of Non Current Liabilities	11,842
Total Current Liabilities	<u>26,922</u>
<u>NONCURRENT LIABILITIES</u>	
Capital Lease Payable	110,876
Less Current Portion of Non Current Liabilities	<u>(11,842)</u>
Total Non Current Liabilities	<u>99,034</u>
Total Liabilities	<u>125,956</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	351,875
Unrestricted	100,731
TOTAL NET ASSETS	<u>452,606</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 578,562</u></u>

The accompanying notes are an integral part of the financial statements.

**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2008**

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EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

GOVERNMENTAL FUND

BALANCE SHEET  
JUNE 30, 2008

	<u>GENERAL FUND</u>
 <u>ASSETS</u>	
Cash	\$ 115,711
Accounts Receivable	<u>100</u>
 TOTAL ASSETS	 <u><u>\$ 115,811</u></u>
 <u>LIABILITIES AND FUND BALANCE</u>	
<u>LIABILITIES</u>	
Accounts Payable	\$ 6,539
Deferred Revenue	<u>5,000</u>
 TOTAL LIABILITIES	 <u>11,539</u>
 <u>FUND BALANCE</u>	
Unreserved	
Designated	36,319
Undesignated	<u>67,953</u>
 Total Fund Balance	 <u>104,272</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 115,811</u></u>

The accompanying notes are an integral part of the financial statements.

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2008

Total Fund Balance for Governmental Funds	\$	104,272
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Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets used in governmental activities are not  
financial resources and therefore are not reported in the funds.

Land	\$	726	
Buildings		218,615	
Equipment		669,780	
Accumulated Depreciation		<u>(426,370)</u>	462,751

Accrued interest is not included as a liability in government funds, it is recorded when paid		(3,541)
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Long term liabilities are not due and payable in the current period and  
are not reported in the fund.

Capital Lease		<u>(110,876)</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>452,606</u></u>
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The accompanying notes are an integral part of the financial statements.

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

GOVERNMENTAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2008

	<u>GENERAL FUND</u>
<u>REVENUES</u>	
Contributions from Local Units	\$ 113,750
Charges for Services	8,800
Interest and Rents	2,419
Other Revenues	<u>2,349</u>
Total Revenues	127,318
<u>EXPENDITURES</u>	
Public Safety	<u>117,160</u>
Net Change in Fund Balance	10,158
<u>FUND BALANCE</u> - Beginning of Year	<u>94,114</u>
<u>FUND BALANCE</u> - End of Year	<u><u>\$ 104,272</u></u>

The accompanying notes are an integral part of the financial statements.

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
JUNE 30, 2008

Net Change in Fund Balances Total Governmental Funds	\$ 10,158
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(38,269)
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Accrued interest is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued Interest Payable - End of Year	(3,541)
--	---------

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)	<u>14,748</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (16,904)</u></u>
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The accompanying notes are an integral part of the financial statements.



EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Evart Area Joint Fire Department is a joint venture created in 1951 by the Townships of Evart, Orient, Osceola, and Sylvan and the City of Evart. The Department was organized to better serve the citizens of all municipalities as authorized by 1951 PA 33, as amended. The Department is under the control of a Board consisting of 1 member from each municipality. The board members are appointed by the Municipalities' boards. The boards duties are to oversee operations, maintain assets, develop budgets for participating units' approval and generally exercise on the Departments' behalf the powers granted by 1951 PA 33, as amended. Funding is provided by a millage levied on the member units. The Fire Department's boundaries include all of the municipalities.

**B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. There are no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Interest and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Fire Department as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

Separate financial statements are provided for governmental funds.

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, are recorded only when payment is due.

Contributions from local units and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Fire Department are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Evart Area Joint Fire Department reports the following major governmental fund:

The *General Fund* is the government's only fund. It accounts for all financial resources of the department.

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the Fire Department's policy to use the restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities and Equity**

***1. Deposits and Investments***

The Fire Department's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition. The Township investment policy authorizes the Township treasurer to invest Township funds in deposit accounts, savings accounts, certificates of deposit, bonds, securities and other

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

obligations of the United States; commercial paper; repurchase agreements; obligations of the state or its political subdivisions; mutual funds; and investment pools as allowed by state law.

**2. *Receivables and Payables***

All receivables are shown net of an allowance for uncollectibles, if any. Fire Department revenues are recognized when they become both measurable and available for use to finance Fire Department operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

For the 2007-2008 fiscal year, the Evert Area Joint Fire Department received as aid \$34,717 from the City of Evert, \$27,528 from Evert Township, \$18,143 from Orient Township, \$15,754 from Osceola Township and \$17,608 from Sylvan Township.

**3 *Inventories and Prepaid Items***

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**4 *Capital Assets***

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building Improvements	25
Land improvements	20
Vehicles	20
Equipment	10-20

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**5. *Long-term Obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

**6. *Fund Equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**7. *Use of Estimates***

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. *Budgetary Information***

The annual budget is adopted on the modified accrual basis based on the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act." A public hearing is held to obtain public comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on June 19, 2007, or as amended by the Fire Department Board from time to time throughout the year.

The appropriated budget is prepared by activity. The Fire Department Board exercises budgetary control over expenditures.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Fire Department because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The Department's deposits are all on deposit with Chemical Bank.

*Investment rate risk.* The Department minimizes Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Department's cash requirement.

*Foreign currency risk.* The Department is not authorized to invest in investments, which have this type of risk.

*Credit risk.* The Department minimizes Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Department's investment policy; and pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors with which the Department does business in accordance with the Department's investment policy.

*Concentration of credit risk.* The Department minimizes Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Department's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2008, \$16,081 of the government's bank balance of \$116,081 was exposed to custodial credit risk.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Department's investments are categorized to give an indication of the level of risk assumed by the Department at year end. Category 1 includes investments that are insured or registered, or securities held by the Department or the Department's agent in the Department's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Department's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Department's name. At year end, the Department held no investments.

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**B. Receivables**

The allowance for doubtful accounts is not considered to be material for disclosure. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

**C. Capital Assets**

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 726	\$ 0	\$ 0	\$ 726
Capital assets, being depreciated				
Buildings	218,615	0	0	218,615
Equipment	669,780	0	0	669,780
Total capital assets, being depreciated	888,395	0	0	888,395
Less accumulated depreciation for:				
Buildings	90,507	3,935	0	94,442
Equipment	297,594	34,334	0	331,928
Total accumulated depreciation	388,101	38,269	0	426,370
Total capital assets being depreciated, net	500,294	(38,269)	0	462,025
Governmental activities capital assets, net	\$ 501,020	\$ (38,269)	\$ 0	\$ 462,751

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Public Safety	\$ <u>38,269</u>

Construction Commitments:

The fire department has no outstanding construction commitments as of June 30, 2008.

**D. Long-Term Debt**

A summary of the Long-Term Debt transactions for the Fire Department for the year ended June 30, 2008 is as follows:

Long-Term Debt at July 1, 2007	\$ 125,624
Deletions	<u>(14,748)</u>
Long-Term Debt at June 30, 2008	110,876
Less Current Portion	<u>(11,842)</u>
	<u>\$ 99,034</u>

Debt payable at June 30, 2008, consisted of the following:

Fire Truck Lease Purchase

\$129,544 payable to Chemical Bank due in annual installments of \$17,004 which includes interest at 4.79% through October 28, 2015.

The annual requirements to amortize all long-term debt outstanding as of June 30, 2008, including interest payments of \$23,797 are as follows:

YEAR ENDING			
JUNE 30	PRINCIPAL	INTEREST	TOTAL
2008	\$ 11,842	\$ 5,162	\$ 17,004
2009	12,409	4,595	17,004
2010	13,004	4,000	17,004
2011	13,627	3,377	17,004
2012	14,279	2,725	17,004
2013-2015	<u>45,715</u>	<u>3,938</u>	<u>49,653</u>
	<u>\$ 110,876</u>	<u>\$ 23,797</u>	<u>\$ 134,673</u>

EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**E. Fund Balance Reserves and Designations**

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Department has certain portions of unreserved fund balances/retained earnings designated for intended future uses. These designations are detailed in the following schedule:

FUND BALANCE

Unreserved	
Designated for Future Budgets	\$ 36,319
Undesignated	<u>67,953</u>
Total Fund Balance	<u><u>\$ 104,272</u></u>

**IV. OTHER INFORMATION**

**A. Property Taxes**

Each Governmental Unit which is a member of the Fire Department levies property tax millage to support the Fire Department. The property tax collections and taxes receivable are recognized by the individual units and remitted to the Fire Department periodically. The Fire Department recognizes the funds received from the units as aid from other governmental units.

**B. Risk Management**

The Fire Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Fire Department participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, errors and omissions, and worker's compensation insurance. The Fire Department pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Fire Department has not been informed of any special assessments being required for the current year or the three prior years.

The Fire Department continues to carry insurance for other risks of loss, including fidelity bonds.



EVART AREA JOINT FIRE DEPARTMENT  
EVART, MICHIGAN  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Contributions from Local Units	\$ 113,750	\$ 113,750	\$ 113,750
Charges for Services	0	8,500	8,800
Interest and Rents	0	0	2,419
Other Revenues	0	0	2,349
Total Revenues	113,750	122,250	127,318
<u>EXPENDITURES</u>			
Public Safety	124,250	142,264	117,160
Net Change in Fund Balance	(10,500)	(20,014)	10,158
<u>FUND BALANCE</u> - Beginning of Year	94,114	94,114	94,114
<u>FUND BALANCE</u> - End of Year	\$ 83,614	\$ 74,100	\$ 104,272

# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
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November 5, 2008

To the Fire Board  
Ewart Area Joint Fire Department  
Ewart, Michigan

In planning and performing our audit of the financial statements of the governmental activities, and the major fund of Ewart Area Joint Fire Department, Ewart, Michigan as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Fire Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

### 1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Fire Department make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiency, Lack of Segregation of Duties, described above is a material weakness.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C*

# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

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November 5, 2008

### COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Fire Board  
Ewart Area Joint Fire Department  
Ewart, Michigan

We have audited the financial statements of the governmental activities and the major fund of Ewart Area Joint Fire Department for the year ended June 30, 2008, and have issued our report thereon dated November 5, 2008. Professional standards require that we provide you with the following information related to our audit.

#### Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated September 15, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Ewart Area Joint Fire Department are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-08. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

##### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. No material misstatements were noted. We proposed several adjusting journal entries that management accepted and recorded.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated November 5, 2008.

### *Other Audit Findings or Issues*

During the course of our audit of the basic financial statements of Evart Area Joint Fire Department for the year ended June 30, 2008, we noted the following list of items which we feel deserve comment:

#### Credit Card Policy

The Fire Department is required to formally adopt a written policy governing the use of its credit card.

#### Budgeting

Pertaining to the Fire Department's compliance with Public Act 621 of 1978, the following items are noted:

- 1) The budget documents should include actual prior year amounts and also estimates of current year amounts.
- 2) In addition to budgeted revenues and expenditures, the budget should include estimated beginning and ending fund balances.

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BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*